



# Congressional Budget Office

## Testimony

**Statement of  
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### **Long-Term Implications of the 2012 Future Years Defense Program**

**before the  
Committee on the Budget  
U.S. House of Representatives**

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Chairman Ryan, Congressman Van Hollen, and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the long-term implications of the Department of Defense's (DoD's) most recent budget request for 2012 and its Future Years Defense Program for the 2012–2016 period, which accompanied that request.

## Summary

In most years, the Department of Defense (DoD) provides a five- or six-year plan, called the Future Years Defense Program (FYDP), associated with the budget that it submits to the Congress. Because decisions made in the near term can have consequences for the defense budget well beyond that period, the Congressional Budget Office (CBO) has examined the programs and plans contained in DoD's FYDP and projected their budgetary impact in subsequent years. For this analysis, CBO used the FYDP provided to the Congress in April 2011, which covers fiscal years 2012 to 2016. CBO's projections span the years 2012 to 2030.

## CBO's Projections

In February 2011, DoD requested an appropriation of \$671 billion for 2012.<sup>1</sup> Of that amount, \$554 billion was to fund the “base” programs that constitute the department's normal activities, such as the development and procurement of weapon systems and day-to-day operations of the military and civilian workforce. The remaining \$118 billion was requested to pay for overseas contingency operations—the wars in Afghanistan and Iraq and other military activities elsewhere. CBO focused its analysis on the base budget because it reflects DoD's future plans for manning, training, and equipping the military.

CBO has projected the costs of DoD's plans for its base budget (reflected in the FYDP, along with other long-term plans released by the department) by using factors that are consistent with the department's recent experience. CBO's analysis yields these conclusions:

- To execute its base-budget plans for the period covered by the 2012 FYDP, DoD would need appropriations totaling about \$206 billion (or 8 percent) more over those five years than if funding was held at the 2011 level of \$536 billion. Over the 10 years from 2012 to 2021, DoD would need a total of \$597 billion (or 11 percent) more than if funding was held at the 2011 level.
- DoD's base budget would grow at a real (inflation-adjusted) average annual rate of 1.8 percent from 2012 to 2016 and by 0.5 percent from 2016 to 2030. At those rates, DoD's base budget would rise from \$554 billion in 2012 to \$594 billion in 2016 and to \$642 billion in 2030.
- The primary cause of long-term growth in DoD's budget from 2012 to 2030 would be rising costs for operation and support (O&S), which would account for nearly all of the increase. In particular, CBO projects significant increases in the costs for military and civilian compensation, military health care, and various operation and maintenance activities. O&S costs would grow steadily throughout the projection period, from \$350 billion in 2012 to \$459 billion in 2030, a growth rate of 1.5 percent per year.
- That large contribution of operation and support costs to long-term budget growth is a change from the years before the wars in Afghanistan and Iraq, when sharp growth in anticipated requirements to replace and modernize weapon systems (the so-called bow wave) was the primary factor underlying projected budget growth beyond the years covered by the FYDP. In CBO's current projections, acquisition costs (the costs of developing and procuring weapon systems) would grow steadily from \$189 billion in 2012 to a peak of \$217 billion in 2019 (an increase of about 14 percent) before decreasing and leveling off—albeit with year-to-year variations—at an average of about \$197 billion per year through 2030.

## Comparison with Projections Incorporating

### DoD's Estimates

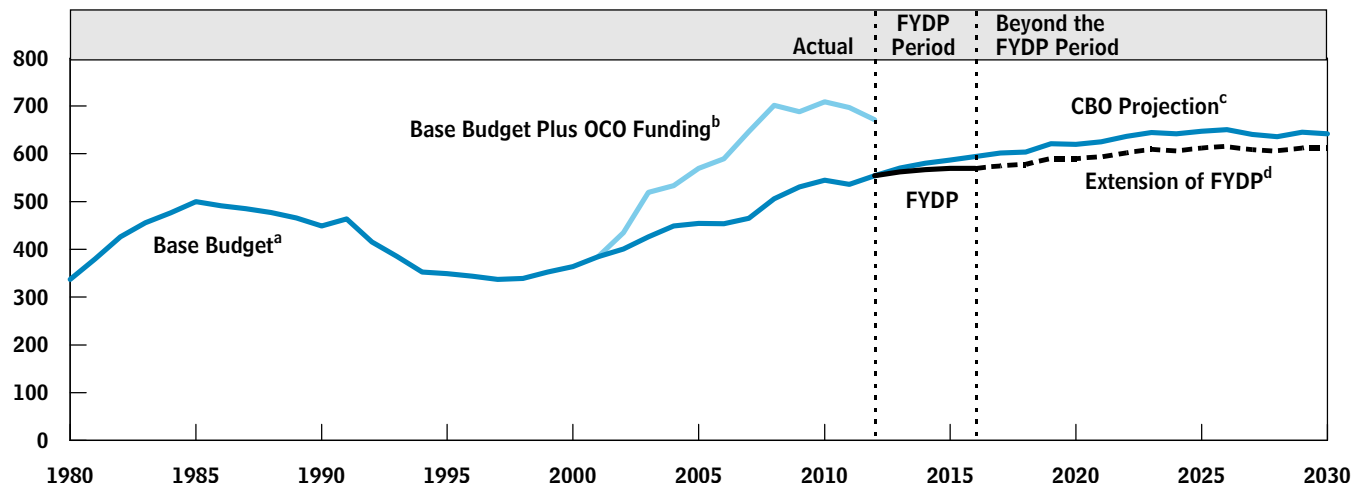
CBO compared its projection (referred to in this analysis as “the CBO projection”) with DoD's estimate of the costs of the FYDP (for the 2012–2016 period) and with an “extension of the FYDP” (for the 2017–2030 period).

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1. Unless otherwise stated, all years referred to in this testimony are federal fiscal years (which run from October 1 to September 30), all costs are expressed as fiscal year 2012 dollars, and all growth rates are measured in real terms (above the rate of inflation). Numbers in the text and tables may not add up to totals because of rounding.

**Figure 1.****Costs of DoD's Plans**

(Billions of 2012 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

- Base-budget data include supplemental and emergency funding before 2002.
- For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.
- The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.
- For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

The latter projection is based on DoD's estimates of costs if they are available for years beyond 2016 (for some weapon systems, for instance) and on costs consistent with the broader U.S. economy if such estimates are not available (for pay and medical costs, for instance).

By DoD's estimates, executing its plans for 2012 to 2016 would require real increases in funding of about 0.7 percent annually (excluding supplemental and emergency funding for overseas contingency operations). Over the five-year period, that growth rate would result in costs that were \$142 billion (or 5 percent) greater than the amount of DoD's budget if it was held at the 2011 level.

In most cost categories, the CBO projection is higher than the FYDP and the extension of the FYDP. For instance, health care costs for DoD have grown faster than they have in the broader economy, and the costs of developing and buying weapons have historically been, on average, 20 percent to 30 percent higher than DoD's initial estimates. The CBO projection—which, starting

with 2013, includes estimates of those costs that reflect historical trends—indicates how rapidly defense budgets would have to grow to execute DoD's plans under the assumption that the department's costs continue to grow as they have in the past.

CBO's projection of the total cost of the FYDP through 2016—at \$2,885 billion—is \$64 billion (or about 2 percent) higher than the department's estimate (see Figure 1). Compared with the FYDP and the extension of the FYDP, annual costs under the CBO projection would be about \$25 billion (or 4 percent) higher in 2016, at the end of the FYDP period; \$31 billion (4 percent) higher at the end of 10 years; and about \$29 billion (5 percent) higher by 2030, at the end of the projection period. Much of the difference derives from CBO's judgment that recent trends in the costs of military health care, weapon systems, and other support activities are likely to persist. Although the costs of DoD's base budget would increase under CBO's projections, that increase would not be as rapid as CBO's current

estimates of the future growth of the economy, so costs would decline as a share of GDP.

CBO's projections should not be viewed as predictions of future defense spending; rather, they are estimates of the costs of executing DoD's current plans. The degree to which the plans laid out by DoD are executed in the future will depend on the funding that will be provided in an era of increasing pressure on the federal budget as a whole and on the success of ongoing efforts to curb cost growth for such items as medical care and advanced weapon systems.

## Long-Term Implications of the 2012 Future Years Defense Program

The nation's fiscal pressures are likely to increase scrutiny of the Department of Defense's budget in the coming years. Although funding decisions will generally be made on an annual basis, near-term decisions about issues such as pay raises, weapon systems, and health benefits for retirees can have effects on the composition and costs of the nation's armed forces that last many years into the future.

One basis for assessing the implications of DoD's budget proposals is its Future Years Defense Program, which the department issues in conjunction with its annual budget request. The FYDP is a detailed description of DoD's plans for national defense and their associated costs over the next several years. The latest FYDP at the time the Congressional Budget Office prepared this analysis was issued in April 2011 and covers the years 2012 to 2016.

Although DoD publishes information about longer-term plans for some activities, such as shipbuilding and aircraft procurement, details about most activities beyond the FYDP period are unspecified. To gain a more complete picture of the funding that may be needed for defense plans over the longer term, CBO has projected the costs of DoD's defense plans over the next 19 years, through 2030. This analysis presents the results of those projections.

### DoD's Budget Proposal for 2012

CBO's projections and the FYDP both begin with DoD's proposed budget for 2012, in which the department requested a total of \$671 billion (see Table 1). That request can be separated into two parts:

- \$554 billion for DoD's "base" programs, which constitute the normal activities of the department, including the development and procurement of weapon systems and day-to-day operations of the military and related civilian workforce; and
- \$118 billion for overseas contingency operations (OCO) to pay for the wars in Afghanistan and Iraq and other military activities elsewhere. Depending on how those conflicts progress, a supplemental request to support them may be forthcoming in 2012.

CBO's analysis focuses on DoD's base budget, which reflects the department's future plans for manning, training, and equipping the military, excluding funding for overseas contingency operations. Those operations have accounted for a significant fraction of DoD's total spending over the past 10 years, but future spending for such operations will depend on how conditions evolve in Afghanistan and Iraq and on whether new contingencies arise elsewhere.

The request for the base budget in 2012 is 3.4 percent higher than the amount that the Congress appropriated for it in 2011, after adjusting for inflation. Nearly all of DoD's base budget is contained in six primary appropriation categories. In its analysis of future funding needs, CBO organized those appropriation categories into three groups: operation and support, acquisition, and infrastructure.

**Operation and support (O&S)** is focused on the normal activities of DoD and includes appropriations for operation and maintenance (O&M) and military personnel. O&M appropriations fund the day-to-day operations of the military, the training of military units, the majority of costs of the military's health care program, and compensation for most DoD civilian employees. O&M represents the largest portion, or nearly 37 percent, of the request for the base budget in 2012, followed by military personnel (about 26 percent). Military personnel accounts fund compensation for uniformed service members, including pay, housing and food allowances, and related activities, such as moving service members and their families.

**Acquisition** includes procurement and research, development, test, and evaluation (RDT&E). Procurement accounts fund the purchase of new weapon systems and other major equipment and upgrades to existing weapon systems. RDT&E accounts pay for the development of

**Table 1.****CBO Projection of Costs of DoD's Plans in Selected Years**

(Billions of 2012 dollars)

	FYDP Period				Beyond the		Average, 2012–2030
	2001	2011	Budget Request, 2012	2016	FYDP Period 2021	2030	
Base Budget							
Operation and Support							
Operation and maintenance <sup>a</sup>	145	200	207	226	248	284	248
Military personnel	100	139	143	144	155	175	156
Subtotal	245	339	350	370	403	459	404
Acquisition							
Procurement	77	104	113	140	140	110	132
Research, development, test, and evaluation	52	76	76	69	69	58	68
Subtotal	129	180	189	210	208	168	200
Infrastructure							
Military construction	7	15	13	12	13	13	13
Family housing	5	2	2	2	2	2	2
Subtotal	11	17	15	14	14	14	14
Total Base Budget	385	536	554	594	625	642	618
Supplemental and Emergency Funding for Overseas Contingency Operations							
Total OCO Funding	n.a.	160	118	n.a.	n.a.	n.a.	n.a.
Total							
Total DoD Budget	385	696	671	n.a.	n.a.	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The CBO projection incorporates costs that are consistent with the Department of Defense's (DoD's) recent experience.

FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which DoD's plans are fully specified;

OCO = overseas contingency operations; n.a. = not applicable.

- a. For this analysis, CBO folded appropriations for most revolving funds (such as the one for the Defense Commissary Agency) into the appropriation for operation and maintenance. The exception is accounts in the National Defense Sealift Fund that are used to purchase ships, which CBO treated as procurement.

technology and weapons. Procurement represented about 20 percent of the request for the base budget in 2012; and RDT&E, about 14 percent.

**Infrastructure** focuses on construction at DoD facilities. The military construction and family housing accounts fund the construction of buildings and housing on military installations and together make up 3 percent of the request for the base budget.

**CBO's Approach for the Projections**

This analysis provides CBO's independent projections of the costs of implementing DoD's plans for operation and support, acquisition, and infrastructure contained in the 2012 FYDP, which spans the years 2012 to 2016. Extrapolating from those plans, CBO also projects costs through 2030. In making its projections, CBO relied on the number of military personnel, acquisition plans, and policies spelled out in the 2012 FYDP and the long-term acquisition plans that DoD publishes in other official

**Table 2.****Cost Assumptions for Two Projections of DoD's Plans**

	<b>CBO Projection (2012 to 2030)</b>	<b>Extension of FYDP<sup>a</sup> (2017 to 2030)</b>
Military Pay	ECI	ECI
Civilian Pay	No increase in 2012; ECI after 2012	ECI <sup>b</sup>
Military Health Care	Until 2019, tracks DoD's recent experience; after 2019, slowly approaches growth rates for health care nationally	Tracks growth rates for health care nationally
Operating Forces	DoD's estimates through 2016; after 2016, costs other than those for pay and health care grow at the long-standing historical rate	Costs other than those for pay and health care grow at the long-standing historical rate
Acquisition	Historical average cost growth	DoD's estimates with no cost growth
Military Construction and Family Housing	DoD's estimates through 2016; no real (inflation-adjusted) growth beyond 2016	No real growth

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; ECI = employment cost index (the Bureau of Labor Statistics' index for wages and salaries in the private sector).

- The extension of the FYDP uses the cost estimates provided in the Future Years Defense Program through 2016.
- Civilian pay would increase with the ECI starting in 2017, but from a lower level than in CBO's projection because of smaller projected pay raises during the 2014–2016 period.

documents, such as the Navy's 30-year shipbuilding plan and DoD's 30-year aviation plan and Selected Acquisition Reports.<sup>2</sup> CBO made two projections of the costs of DoD's plans:

- The "CBO projection," which is based on CBO's estimates of future costs, and
- The "extension of the FYDP," which incorporates the department's estimates to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

Specifically, the CBO projection begins with DoD's plans and applies CBO's estimates of the costs of those plans through 2030 (see Table 2 for the assumptions

CBO used in its estimates). The CBO projection was developed using cost factors and growth rates that are consistent with DoD's recent experience but not necessarily with its official cost assumptions or with cost trends in the broader economy.

For the extension of the FYDP, CBO starts with DoD's cost estimates for 2012 through 2016 and projects the costs of DoD's plans through 2030 using the department's estimates of longer-term costs if they are available (for some major weapon systems, for instance) or costs that are consistent with the broader U.S. economy if such estimates are not available (for pay and medical costs, for instance).

For most categories, costs in the CBO projection are higher than the costs estimated by DoD in the FYDP and the costs estimated using the assumptions for the extension of the FYDP. For instance, health care costs for DoD have grown faster than they have in the broader economy, and the costs of developing and buying weapons have historically been, on average, 20 percent to 30 percent higher than DoD's initial estimates. The CBO projection—which, starting with 2013, includes

2. If a weapon system reaches the end of its service life before the end of the projection period (in 2030) and DoD has not planned a replacement system, CBO assumes that the department will develop and purchase a new system to replace the aging one. DoD has not published plans for minor programs extending beyond the FYDP. CBO estimated costs for those programs on the basis of historical correlations between funding for major and minor programs.

estimates of those costs that reflect historical trends—indicates how rapidly defense budgets would have to grow to execute DoD's plans under the assumption that the department's costs continue to grow as they have in the past.

The two sets of projections should not be viewed as predictions of future defense spending; rather, they are estimates of the costs of executing DoD's current plans. Defense plans can be affected by unpredictable changes in the international security environment, Congressional decisions, and other factors that could result in substantial departures from current intentions. One such factor is that DoD and the Congress frequently respond to higher-than-expected costs by changing acquisition plans—by, for example, delaying or reducing purchases of weapon systems or canceling systems outright. Another factor that has taken on prominence is the increasing pressure on the federal budget as a whole. Indeed, in anticipation of that pressure, Secretary of Defense Robert Gates announced in January 2011 that DoD would trim the plans presented in the 2011 budget by a total of \$78 billion (or about 3 percent) between 2012 and 2016 in recognition of the fiscal environment (a decrease that is reflected in the 2012 FYDP). Also, the President announced that he would seek an additional \$400 billion in savings from national security funding over the next 12 years. If those savings were realized, they could reduce the costs of DoD's future plans.

### Projections of Overall Costs

The detailed projections describe the costs of DoD's base budget over two spans: the period from 2012 to 2016 covered by the Future Years Defense Program, and the period from 2017 to 2030. Because the size of overseas contingency operations in the future is uncertain, costs for them are projected only as illustrative totals and are not broken out by budget category.

**Costs for the Base Budget from 2012 to 2016.** According to the CBO projection, which uses prices that are consistent with DoD's historical experience, the annual costs of carrying out DoD's plans for the FYDP would reach \$594 billion by 2016, an 11 percent increase over the base budget in 2011. Total costs for the 2012–2016 period would be about \$206 billion (or 8 percent) more than if funding was kept at the 2011 level of \$536 billion (see Figure 2).<sup>3</sup> That projection translates to annual increases in defense budgets that average 1.8 percent between 2012 and 2016.

By contrast, the FYDP anticipates that carrying out current plans will require DoD's base budget to grow at an average annual rate of about 0.7 percent between 2012 and 2016, reaching \$569 billion by 2016, a 6 percent increase over the base budget in 2011. The difference between the CBO projection and DoD's estimates for the FYDP is about 2 percent, or about \$64 billion, over the five-year period (see Table 3). Most of that difference results from CBO's higher estimates of the costs to develop and procure new weapon systems and to provide health care to service members and retirees and their families.

### Costs for the Base Budget Beyond the FYDP Period.

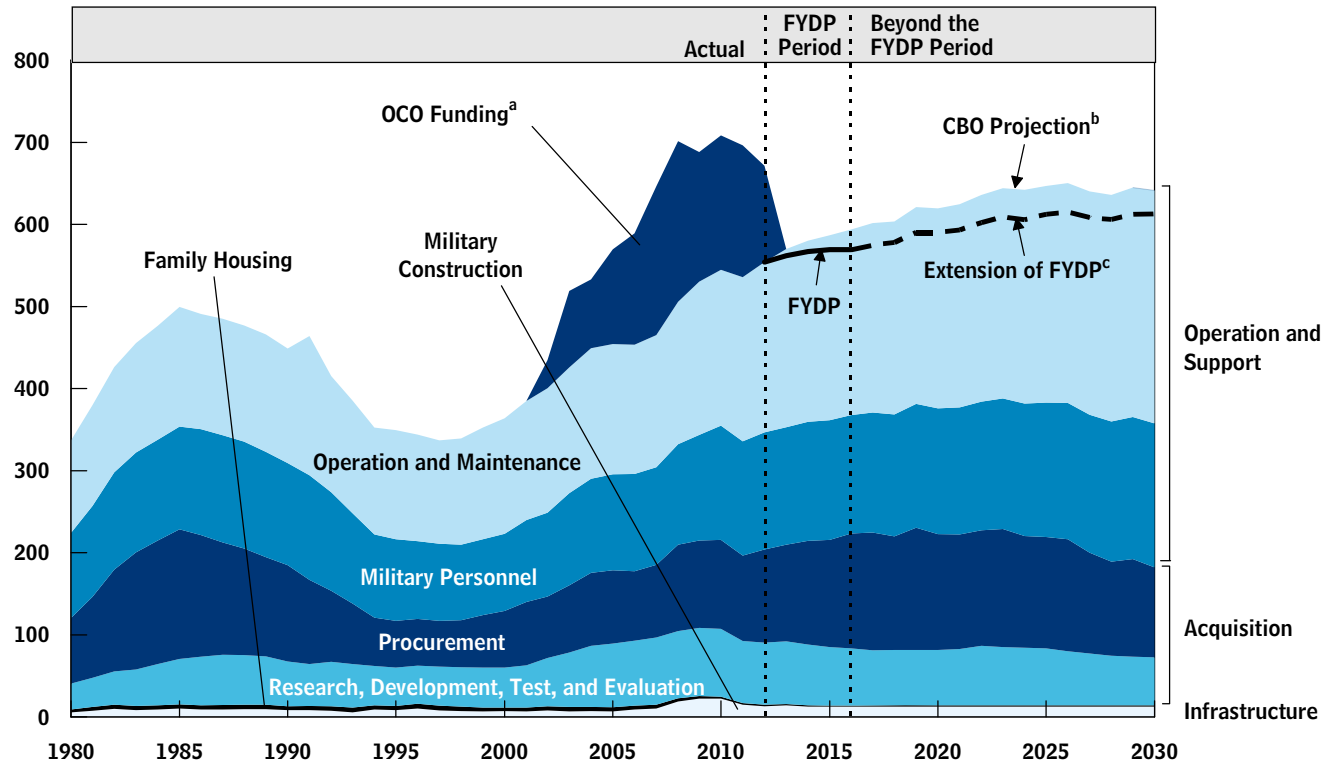
According to the CBO projection of DoD's plans, costs would rise from \$594 billion in 2016 to \$625 billion in 2021 and to \$642 billion in 2030—reflecting an average increase of about 0.6 percent per year from 2016 to 2030 (see Table 1 on page 4). Most of the increase is attributable to projected real (inflation-adjusted) increases in the costs of operation and maintenance and real increases in the costs of pay and benefits for military service members (see Figure 3 on page 9). In particular:

- After rising by 2.2 percent per year between 2012 and 2016, the cost of O&M is projected to grow by 1.6 percent per year from 2017 to 2030. Most of that growth is attributable to the rising costs of medical care (see Figure 4 on page 12). However, increases in the costs of pay and benefits for civilian workers and of maintaining the aging equipment in the current inventory and the more sophisticated equipment that will replace today's systems also contribute. (See Box 1 on page 10 for a discussion of how O&M costs in the CBO projection compare with DoD's historical experience.)
- After barely growing during the FYDP period (because of planned reductions in the number of military personnel), the annual appropriation for military personnel would increase by about 1.4 percent per year from 2017 to 2030.

3. All costs in this analysis are expressed as total obligational authority (TOA) unless noted otherwise. TOA differs from budget authority in that it excludes the effects of some receipts, permanent spending in some trust funds and other accounts, and some payments to the Military Retirement Fund. In recent years, the difference between TOA and budget authority in the DoD budget has been relatively small, generally \$2 billion or less.

**Figure 2.****Costs of DoD's Plans, by Appropriation Category**

(Billions of 2012 dollars)



Source: Congressional Budget Office.

Notes: Base-budget data include supplemental and emergency funding before 2002.

FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which Department of Defense's (DoD's) plans are fully specified.

- For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.
- Each category shows the CBO projection of the base budget from 2012 to 2030. That projection incorporates costs that are consistent with DoD's recent experience.
- For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

- After a fairly rapid increase over the next six years, the costs of developing and purchasing new weapon systems (and upgrading older systems) under DoD's current plans would be fairly steady from 2017 to 2030—albeit with annual variations—at a level that is about 13 percent higher than that in 2011. Beyond 2030, acquisition costs could rise again depending on the decisions that are made about how to equip forces in the distant future.

Projected costs would rise more slowly under the extension of the FYDP than under the CBO projection—at

an average rate of 0.5 percent a year from 2016 to 2030, reaching \$613 billion at the end of that period, or about \$29 billion less than the amount in the CBO projection (see the dashed line in Figure 2). That lower growth is attributable primarily to lower estimates of medical costs, most of which are reflected in the operation and maintenance account, and procurement costs.

**Costs for the Base Budget in a Broader Context**

CBO's analysis is intended to highlight the budgetary implications of DoD's plans embodied in the 2012

**Table 3.****Comparison of the CBO Projection of DoD's Future Years Defense Program and DoD's Own Projection**

(Billions of 2012 dollars)

	2011	FYDP Period					Total, 2012- 2016
		Budget Request, 2012	2013	2014	2015	2016	
CBO Projection	536	554	570	580	587	594	2,885
DoD's 2012 FYDP	536	554	562	567	569	569	2,821
Difference Between the CBO Projection and DoD's FYDP	0	0	8	13	18	25	64

Source: Congressional Budget Office.

Notes: The CBO projection incorporates costs that are consistent with the Department of Defense's (DoD's) recent experience.

FYDP = Future Years Defense Program.

FYDP, particularly after 2016; it is not an analysis of affordability or requirements for defense. When assessing the affordability of the defense budget, some analysts consider the fiscal picture overall, including the size of the deficit and the funding needed for other claims on the federal budget, such as Social Security, Medicare, and interest on the public debt. Others look at affordability in terms of the share of the U.S. economy (as measured by gross domestic product, or GDP) that is allocated to defense.

Although the costs of DoD's base budget would increase under the CBO projection, that increase would not be as rapid as CBO's current estimates of the future growth of the economy, so costs would decline as a share of GDP (see Figure 5 on page 13). Historically, that share fell from an average of 6.0 percent in the 1980s to 3.8 percent in the 1990s. Including supplemental and emergency funding, DoD's costs as a share of GDP rose above 4.0 percent after 2007, to 4.8 percent in 2011. According to the CBO projection, defense funding in the base budget under DoD's plans would decline to 3.0 percent of GDP by 2021 and to 2.6 percent by 2030. All else being equal, any future funding for overseas contingency operations would increase the share of GDP spent on defense.

A number of groups have released plans in recent months that focus on reducing the deficit and have recommended cuts in defense spending over the next five years and, in some cases, for a much longer period. Many of those

plans suggest freezing the total base budget for defense at some specified amount (such as the 2010 or 2011 funding) or limiting future growth in the base budget to some specified rate (such as the rate of inflation in the broader economy).<sup>4</sup> For example, a majority of the members of the National Commission on Fiscal Responsibility and Reform (the Fiscal Commission), a bipartisan group created by the President, endorsed a plan that would cut all security spending (which includes the base defense budget as well as spending on nuclear weapons, homeland security, veterans, and international affairs) to its 2008 level (in inflation-adjusted terms) by 2013.

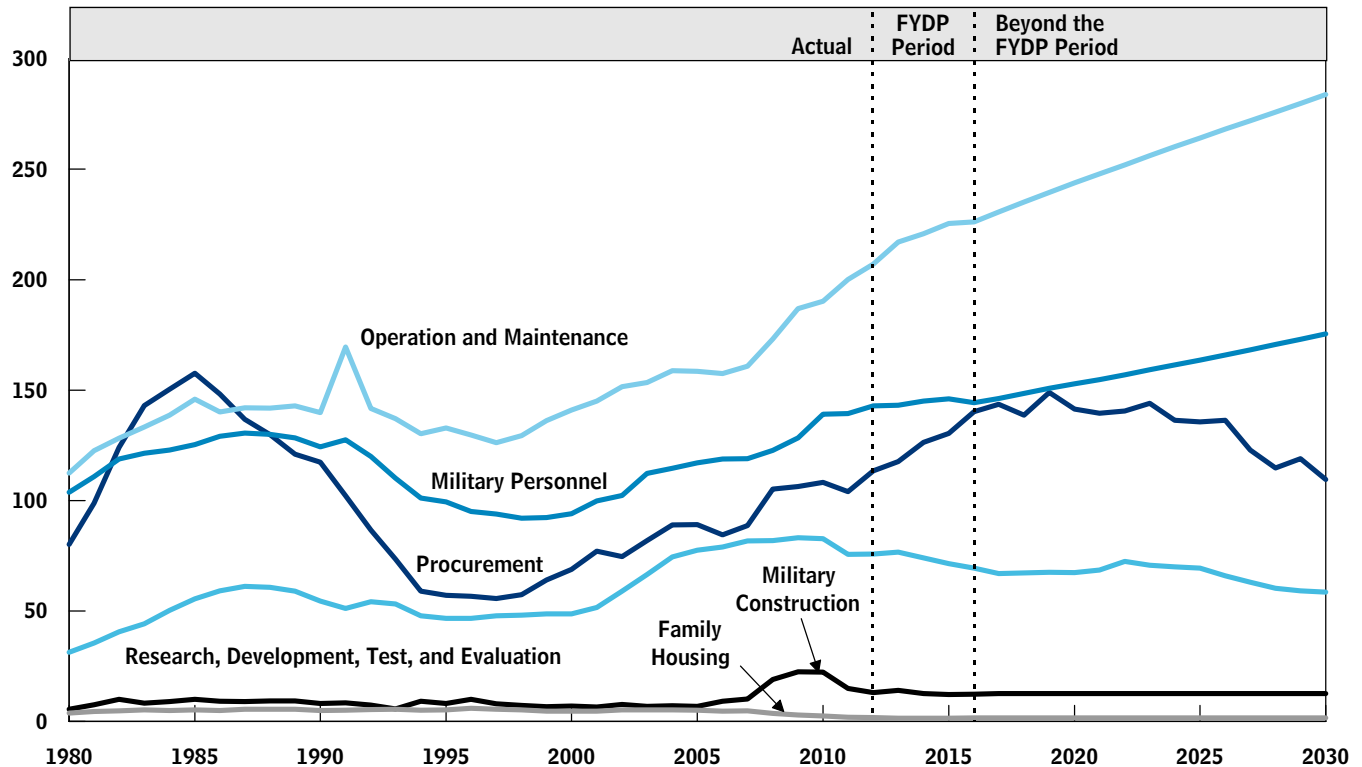
Although not as prominent in recent public discussions, other plans have suggested holding the base budget for defense constant at some fraction of GDP. Many such plans envision an immediate increase in defense spending, generally followed by higher rates of growth for the defense budget in the future than those reflected in the FYDP (because most projections of GDP growth are higher than the growth in DoD's budget anticipated in the FYDP).<sup>5</sup>

4. For a summary of the provisions of various plans, see Committee for a Responsible Federal Budget, "Summary Table of Fiscal Plans," [http://crfb.org/sites/default/files/CRFB\\_Summary\\_Table\\_of\\_Fiscal\\_Plans.pdf](http://crfb.org/sites/default/files/CRFB_Summary_Table_of_Fiscal_Plans.pdf).

5. For representative examples of such plans, see Mackenzie Eaglen, ed., *Four Percent for Freedom: The Need to Invest More in Defense—Selected Writings*, Special Report 18 (Washington, D.C.: Heritage Foundation, September 25, 2007).

**Figure 3.****CBO Projection of Base-Budget Costs of DoD's Plans, by Type of Spending**

(Billions of 2012 dollars)



Source: Congressional Budget Office.

Notes: Base-budget data include supplemental and emergency funding before 2002.

FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

Another way to examine the costs of DoD's plans is to compare them with CBO's baseline, which shows what appropriations and spending would be if appropriations in future years were equal to the 2011 funding adjusted to reflect anticipated inflation and growth in the cost of labor (as measured by the employment cost index, the Bureau of Labor Statistics' index for wages and salaries in the private sector). The CBO projection of DoD's plans is \$437 billion (or 8 percent) above CBO's baseline (in 2012 dollars, adjusted for the 2011 appropriations and excluding overseas contingency operations) over the 2012–2021 period.

**Costs for Overseas Contingency Operations**

Operations in Afghanistan and Iraq are continuing, and those overseas operations, along with any others, will increase costs above CBO's projections for DoD's base budget. From 2002 to 2011, DoD's appropriations for

overseas contingency operations totaled \$1.3 trillion (in 2012 dollars), an average of about \$132 billion per year, or about 22 percent of the department's total spending. Although DoD has requested \$118 billion for those purposes for 2012 and the operations will continue after this year, the FYDP does not include estimates of the funding that might be needed to support overseas contingency operations beyond 2012. Moreover, DoD could ask for more funding for 2012 than it has already requested.

The funding needed in the future for overseas contingency operations will depend on how political and military conditions evolve in the coming years. As an illustrative example, if today's contingency force was drawn down to 45,000 troops by 2015 and was then maintained at that number through 2030, contingency operations would add a total of \$200 billion to the base budget from 2013 to 2016 and an average of \$30 billion

**Box 1.****The Context for the Projected Growth of Spending for Operation and Maintenance**

In the Congressional Budget Office (CBO) projection, how does growth of operation and maintenance (O&M) spending compare with historical experience? After normalizing O&M spending for the overall size of the armed forces (measured by the number of active-duty uniformed personnel), CBO analyzed actual O&M costs, including those for civilian personnel and military medical care, from 1980 to 2011. The result was a year-by-year measure of the Department of Defense's (DoD's) average cost to support each active-duty service member.

From 1980 to 2001, the last year before the onset of major operations in Afghanistan and Iraq, that cost grew steadily (see the figure). From \$55,000 per active-duty service member in 1980, that cost grew at a rate of about \$2,200 a year and deviated little from that trend during the period despite some significant changes, including the defense buildup of the 1980s and the reduction in forces at the end of the Cold War. By 2001, the O&M cost per capita had nearly doubled, reaching \$105,000 per active-duty service member.

The overseas operations that began after 2001 caused rapid growth in O&M costs, which were funded largely through supplemental and emergency appropriations and not through the base budget. O&M funding per active-duty service member quickly departed from the historical trend as a result of the cost of conducting major operations on the other side of the world, the exceptional wear and tear on equipment in combat, and the large number of reserve and National Guard personnel deployed. (Those personnel are not included in the denominator in calculating costs per *active-duty* service member, but their support nevertheless contributes costs to the numerator.) By 2010, the O&M cost per active-duty service member had doubled again, growing to \$211,000, including costs for overseas contingency operations.

The large growth in O&M spending to support operations in Afghanistan and Iraq obscures another significant trend that developed during the war years—the rapid growth of O&M spending per active-duty service member in the base budget. That phenomenon is clearly illustrated in DoD's base-budget request for 2012 and its associated Future Years Defense Program (FYDP) through 2016: At \$147,000 per active-duty service member in 2012, the cost is \$23,000 (or 19 percent) above what the historical trend would indicate, which implies that spending would have to have grown by an average of more than \$4,000 per year since 2001—almost double the historical rate. Furthermore, DoD expects that those costs in the base budget will grow at more than one and one-half times the historical (pre-2001) rate through the FYDP period, reaching \$161,000 in 2016. (The 2011 FYDP anticipated similar growth.) That projected growth of O&M spending in the base budget is in marked contrast to the rate DoD projected in earlier FYDPs: In the 2009 FYDP, released in 2008, DoD anticipated that O&M costs and growth would remain close to those predicted by the historical trend.

Excluding costs for overseas contingency operations, costs per active-duty service member grow at a faster rate in the CBO projection than in the FYDP, reaching \$167,000 per service member in 2016, an average annual increase of \$5,000 from the estimated 2012 costs. Beyond 2016, O&M costs in the CBO projection grow more slowly than in the FYDP period. Reflecting recent experience, CBO projects cost growth per active-duty service member that is about 35 percent per year higher than the growth rate from 1980 to 2001. Furthermore, that growth is from a projected per capita cost in 2016 that is \$34,000 (or 26 percent) higher than would have been predicted by the historical trend. In CBO's projection, O&M costs reach \$209,000 per active-duty service member by 2030.

Continued

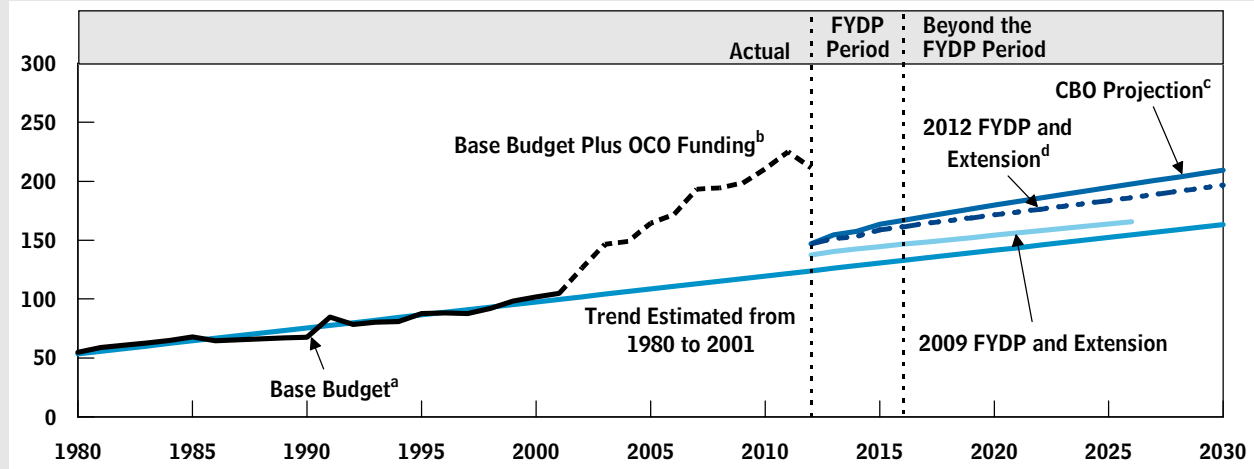
## Box 1.

Continued

## The Context for the Projected Growth of Spending for Operation and Maintenance

### Costs of Operation and Maintenance per Active-Duty Service Member

(Thousands of 2012 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

- Base-budget data include supplemental and emergency funding before 2002.
- For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.
- The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.
- For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

per year thereafter, CBO estimates (see Figure 6 on page 14).<sup>6</sup> That number of troops would be significantly lower than the number deployed in 2011 but about three

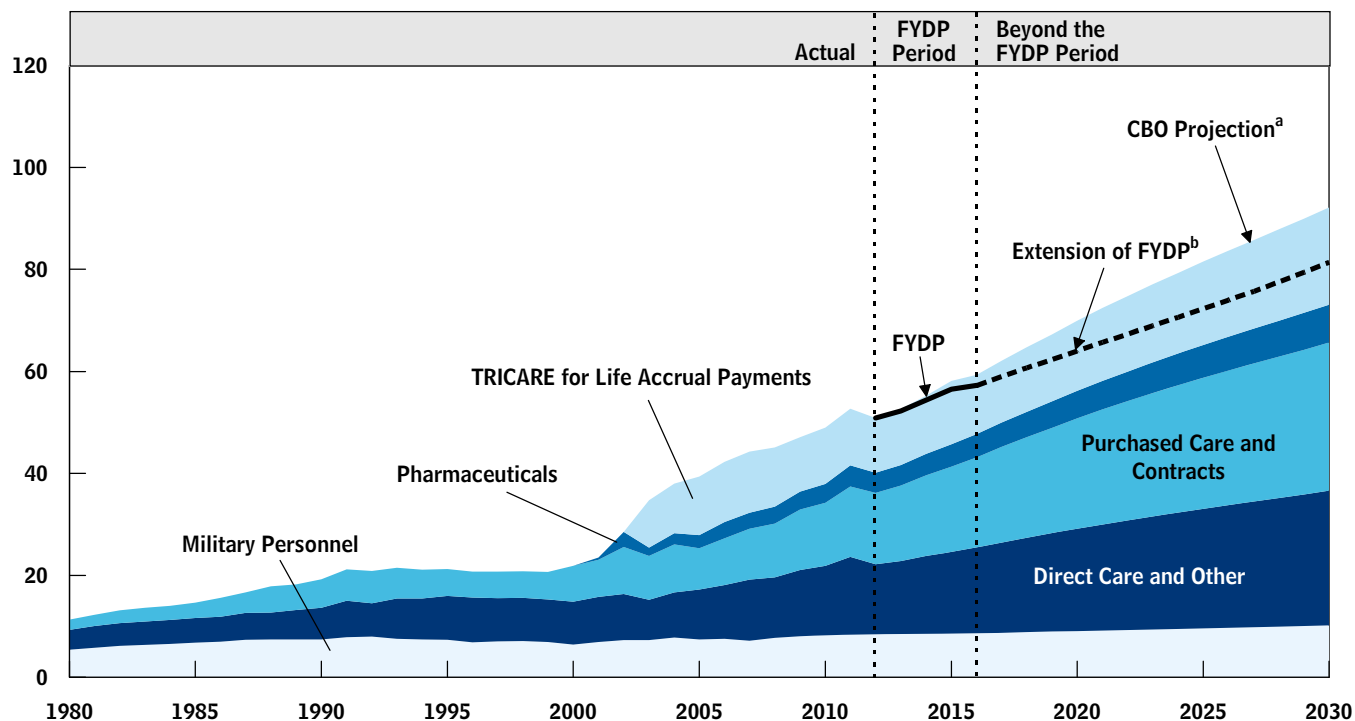
to four times the average number deployed between 1991 and 2001.<sup>7</sup>

6. That scenario for contingency operations is the same as one of the policy alternatives presented in Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021* (January 2011), Table 3-9. The force levels referred to exclude U.S. military personnel who are permanently based overseas (in locations such as South Korea or Okinawa, Japan) but are not engaged in contingency operations. That scenario is not inconsistent with the President's announced plans for drawing down U.S. forces in Afghanistan.

7. At the end of calendar year 2010, DoD reported 85,600 military personnel deployed in and around Afghanistan and 103,700 personnel deployed in and around Iraq. See Department of Defense, *Active Duty Military Personnel Strengths by Regional Area and by Country (309A)*, <http://siadapp.dmdc.osd.mil/personnel/MILITARY/history/hst1012.pdf> (December 31, 2010).

**Figure 4.****Costs of DoD's Plans for Its Military Health System**

(Billions of 2012 dollars)



Source: Congressional Budget Office.

Notes: Supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, is included for 2011 and earlier but not for later years.

Before 2001, pharmaceutical costs were not separately identifiable but were embedded in the costs of two categories: "Purchased Care and Contracts" and "Direct Care and Other." In 2001 and later years, most pharmaceutical costs are separately identifiable, but some of those costs may be embedded in the category "TRICARE for Life Accrual Payments."

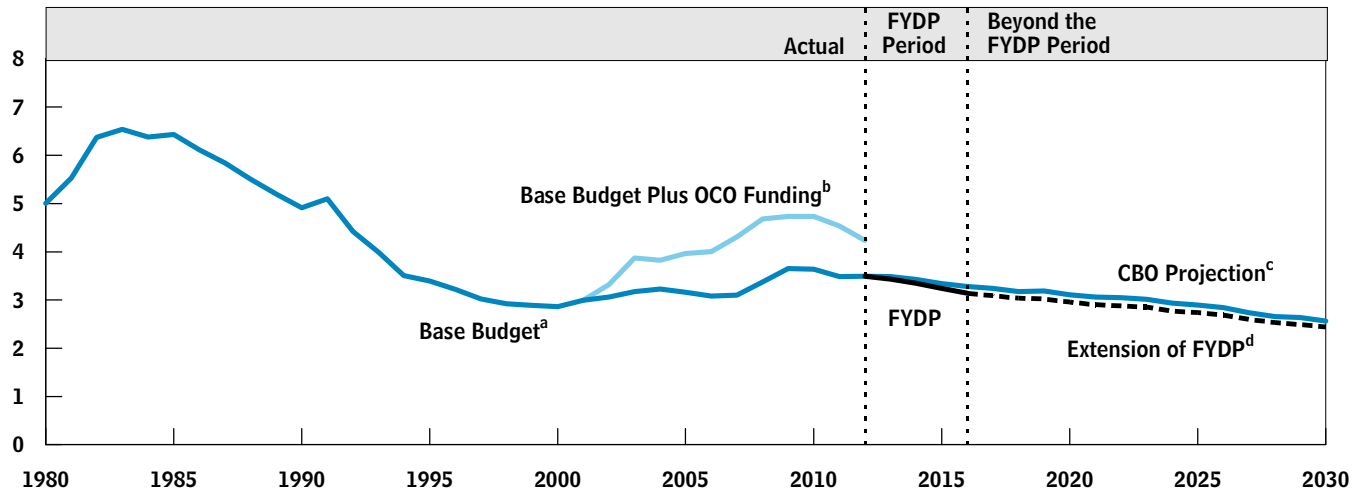
The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories.

FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

- Each category shows the CBO projection of the base budget from 2012 to 2030. That projection incorporates costs that are consistent with DoD's recent experience.
- For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

**Figure 5.****Costs of DoD's Plans as a Share of Economic Output**

(Percentage of gross domestic product)



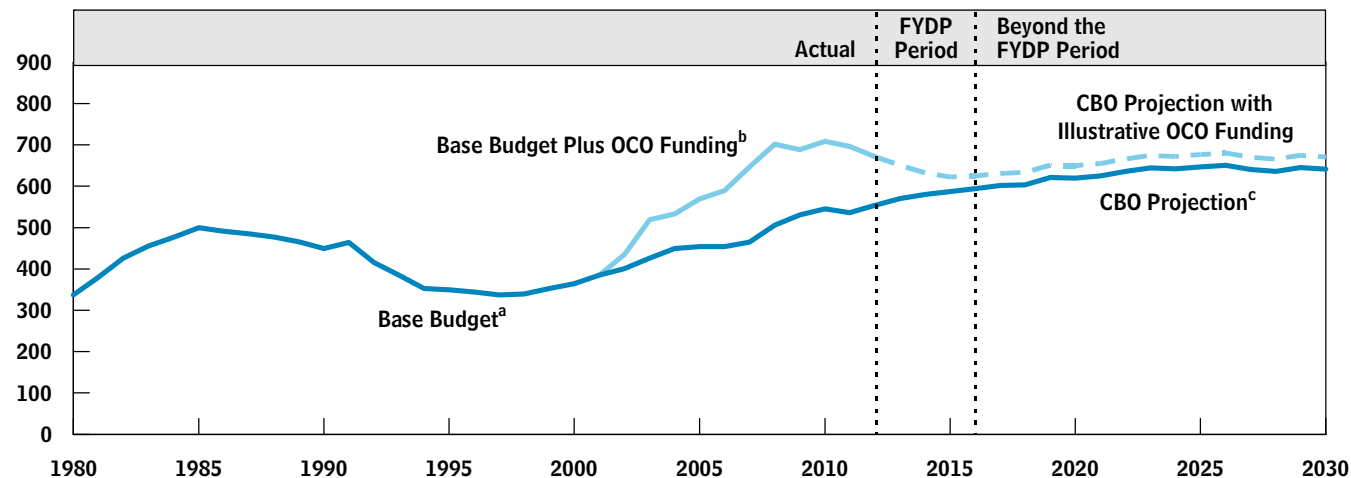
Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

- a. Base-budget data include supplemental and emergency funding before 2002.
- b. For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.
- c. The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.
- d. For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

**Figure 6.****Costs of DoD's Plans Including Overseas Contingency Operations**

(Billions of 2012 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

- a. Base-budget data include supplemental and emergency funding before 2002.
- b. For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.

The base budget plus OCO funding includes actual funding for the base budget plus supplemental and emergency funding for 2002 to 2011 (the solid portion of the line). For 2012 to 2030 (the dashed portion of the line), it includes CBO's projection of base-budget costs plus the OCO funding requested for 2012 and an illustrative example of OCO funding for 2013 to 2030 (under an assumption that the number of deployed troops decreases to 45,000 by 2015 and remains at that level thereafter).

- c. The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.